VANCOUVER

HOUSING MARKET OUTLOOK

Canada Mortgage and Housing Corporation

Housing Fundamentals Strong

The last time Canadian chartered banks offered a five-year mortgage rate at 6.15%; you could buy a 1956 convertible right out of the showroom. Unlike the mortgage business today, back then; there was little room to negotiate a lower rate for a home to park your new ragtop in front of. Today, financing a home in BC is more affordable than it has been in years.

And homes are selling. MLS sales in the province during 2003 are forecast to reach more than 86,000 units, just short of an all-time record. Growth in BC home sales this year will outpace every other province for the third year running. However, all this buying activity has put pressure on new and resale housing inventories.

Low mortgage rates and strong consumer demand from renters have unleashed a sizeable contingent of first time buyers. Adding to this mix is an influx of investors eager for tangible investments and positive cash flows, while still others are buying second homes as recreation properties.

To meet the demand, homebuilders are ramping up production. Housing starts in the province are expected to climb 12% this year, on the heels of a 25% increase last year. But the inventory of new homes is still low in most areas, discounting any fear of oversupply. In fact, while more than 17,000 new homes are under construction across the province, most have already been pre-sold. The market is particularly tight in Vancouver's downtown core, where only a handful of new condominiums are complete and unsold.

Strong demand and low inventories inevitably lead to rising home prices.

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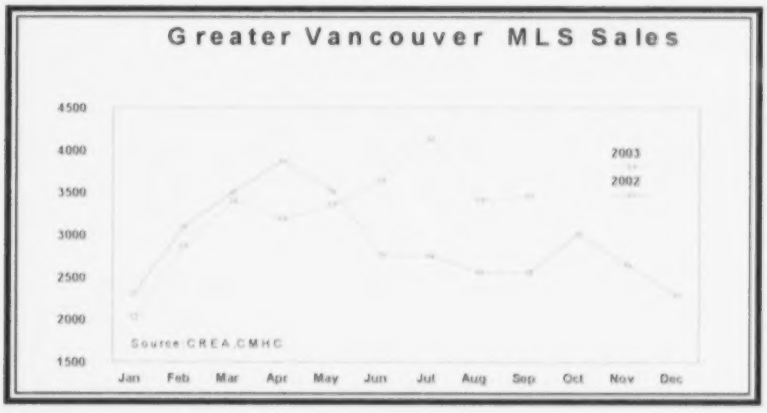

Fall 2003

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CMHC SCHL

HOME TO CANADIANS
Canada

New Housing Market

It is no secret that the Vancouver housing market has been hot lately. 2003 sales activity in Greater Vancouver is expected to reach a ten year high and the second highest on record during 2003. Strong demand in the resale market has drawn down inventory, making ideal conditions for homebuilders to increase the number of units they build. As a result, new home construction activity across the Vancouver CMA is forecast to rise 15 per cent this year, on the heels of a 22 per cent increase in 2002.

While the resale market is nearing historic high levels, housing starts in the Vancouver CMA will just edge past the 30-year average of 14,800 units in 2003, coming in around 15,200 units. This is a far cry from the 21,307 starts recorded in 1993. In fact, all the recent construction activity in the Vancouver CMA has done little to satiate demand. The inventory level of new units is extremely low when you take into account pre-sale activity. A diminishing land supply and longer pre-development periods have made a rapid response by homebuilders to strong demand problematic. Today, residential construction activity is nearly twice what it was just a few short years ago, but the number of prospective homebuyers has grown even faster.

So where are all the homebuyers coming from? Certainly there is a large segment of homebuyers who are trading up or down, but this activity is generally satisfied within the current stock of homes. Some will buy new homes, while a few younger households buy starter homes in the resale market, thereby ensuring growth in the overall stock of homes commensurate with a growing population. However, what we are experiencing now is a significant amount of demand over and above what one would expect from normal trading activity and a slowly increasing population.

The market movers have been first time buyers and investors. Historically low mortgage rates have had the practical effect of elevating the purchasing power of households. This is particularly relevant in Vancouver, where high home prices make affordability the number one issue for homebuyers. It appears the combination of low mortgage rates and increasing consumer confidence has unleashed a bevy of first time buyers into the market place. With average mortgage payments approaching the rents paid by most Vancouverites, many households see now as the ideal time to jump into the home ownership market. As a result, expect vacancy rates to increase over the next 12 months as a significant number of renters switch to home ownership. There will likely be a lag between first time buyer activity and rising vacancies as many pre-sold condominiums are yet to be completed.

Investors have also bolstered demand for housing in Vancouver. Uncertainty in the stock market and low returns on fixed investments have many investors turning to real estate to diversify their portfolios. Moreover, low mortgage rates provide an extra boost by enabling many small investors to achieve a positive cash flow on their real estate investment. Research suggests that in the Downtown core as many as 50 per cent of new condominium units are purchased by individual investors. There is also a growing trend in second home buying, either as recreation property for out-of-town buyers or as a way to escape the traffic congestion during the workweek. It is the plethora of these buyers that has changed the market dynamics in the Vancouver CMA this year.

Single-detached homebuilders were quick to respond to growing demand

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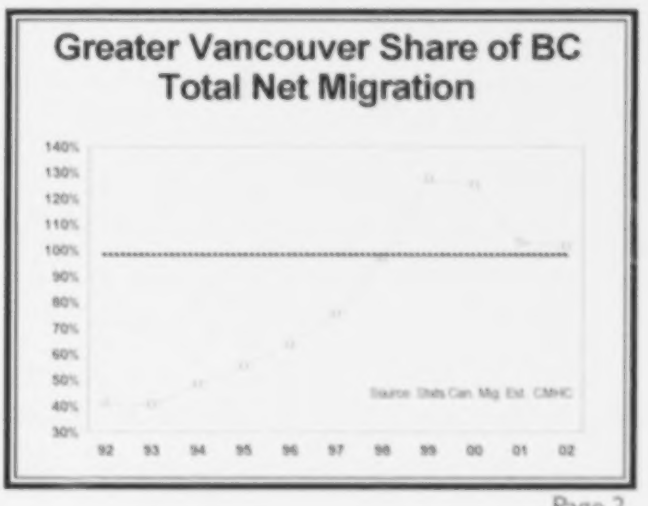
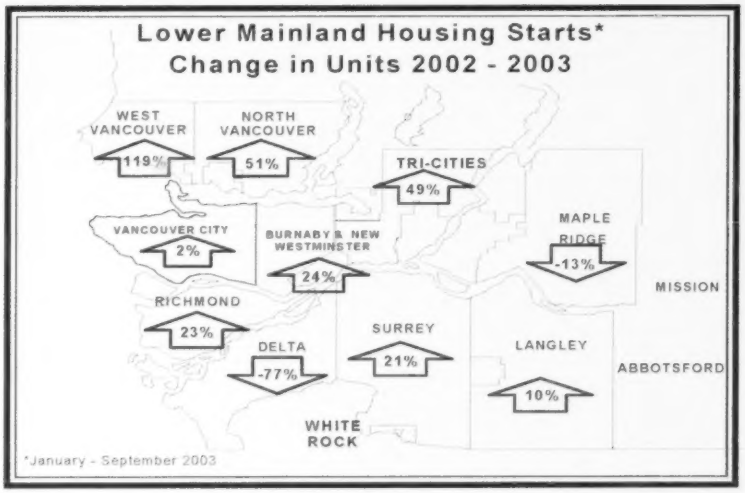


last year. Low mortgage rates and a dwindling supply of new units contributed to a 42 per cent increase in single-detached housing starts in 2002. Expect the pace to slow somewhat by the end of this year, with single-detached housing starts growing by a more modest 12 per cent to 5,600 units this year, and a further 4 per cent to 5,800 units in 2004. Average new single-detached home prices in the Vancouver CMA are expected to climb 7 per cent to $500,000 in 2003.

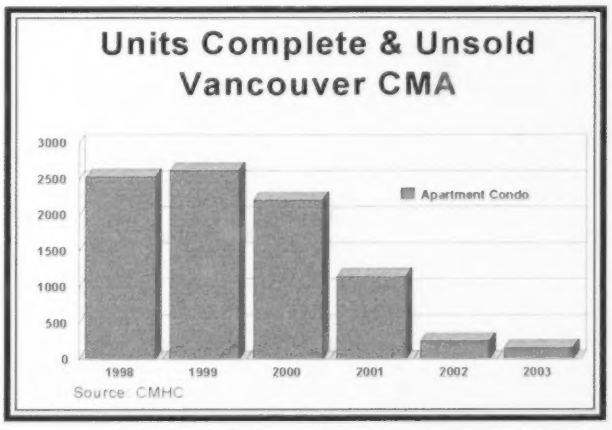
Condominium housing starts in the Vancouver CMA are forecasted to climb 17 per cent this year, after a 12 per cent gain in 2002. Low inventory levels have condominium builders competing for a limited number of development sites, thereby increasing the cost of land and the overall cost of new units. Five years ago there were more than 2,600 newly completed and unsold apartment condominiums in the Vancouver CMA. In September of this year there were just 144 units in this category, with just a handful of units available in the downtown core.

The average price of a new townhouse in the Vancouver CMA is expected to rise 4 per cent to $262,000 this year, after an 8 per cent gain in 2002. The slowing of price gains is a calculated response by builders trying to maintain specific price points demanded by the market. This is especially relevant in the suburban areas where first time buyers comprise a large contingent of the marketplace. With the trend toward compact suburban development, townhouse units will garner an increasing share of overall construction activity.



The average price of new apartment condominiums is expected to drop 21 per cent this year. This does not reflect falling condominium values. Rather, it is the unit mix that has changed. During 2002, a higher proportion of new apartment absorptions occurred above $300,000, while a greater proportion of condominium absorptions this year are smaller, less expensive units, geared to first time and investor buyers.

The outlook for 2004 is a continuation of the upward trend in residential construction. While total housing starts are forecast to grow at a more modest 4 per cent next year, multiple unit construction will continue to be strong. A temporary acceleration of multiple starts in the City of Vancouver is expected through the balance of this year and into the first few months of 2004, as builders attempt to get their projects started before a slated increase in development cost charges in the new year. Overall demand will remain strong, as mortgage rates are likely to continue at historic low levels for most of the year. Over the longer term, a reinvigorated US economy and planned local infrastructure improvements will boost employment growth and bolster the purchasing power of Vancouver households. ■



Resale Market

MLS sales in Greater Vancouver will post another strong year in 2003. Low mortgage rates and high consumer confidence will drive MLS sales up another 12 per cent this year. The highest number of MLS sales ever recorded in Greater Vancouver occurred in 1992, when 38,774 units changed hands. Total MLS sales in Greater Vancouver will almost reach that record level this year, climbing to 38,000 transactions.

The largest gains will occur in condominium sales, where first time and investor interest is strong. Townhouse sales are expected to climb 17 per cent to 6000 units, while condominium apartment sales will grow 21 per cent to 14,500 units. Meanwhile, single detached sales are set to increase by a more modest 4 per cent to 17,500 units in 2003.

In the Fraser Valley, MLS sales will increase by around 12 per cent to 17,000 units. Single detached sales will increase 2 per cent to 9,520 units, while condominium sales will gain as much as 26 per cent, to 7,480 units in 2003.

Strong demand has depleted listing inventories in many areas and across most product types. Active listings are at their lowest level in more than a decade. With a significant amount of the new housing under construction already pre-sold, further pressure on MLS inventory levels is expected well into the new year. With the best properties selling at or near asking prices and within a shorter period of time, home prices still have considerable upward momentum.

The average annual MLS price for a single-detached home in Greater Vancouver is expected to climb 12 per cent in 2003 to $440,000. Vancouver will maintain its somewhat dubious distinction of having the highest home prices in Canada, and among the most expensive in the world. Single-detached home prices in the Fraser Valley are considerably more affordable, with the average price increasing 11 per cent to $302,000.

Apartment condominium prices are forecasted to climb 9 per cent to $215,000 in Greater Vancouver on an annual year-over-year basis. Townhouse prices will also grow 8 per cent to $268,000 in 2003. With a much smaller price differential between condominiums and single-detached homes in the Fraser Valley, condominium prices are forecast to increase at a more modest pace of 3 per cent this year to $160,000. Inventories in the Fraser Valley are also not as depleted as in Greater Vancouver, providing less upward pricing pressure.

The growth rate for resale apartment condominium prices varies significantly between areas in the Lower Mainland. When comparing average prices in August to the same month last year, stark differences can be found. For example, apartment condominium prices in New Westminster have grown 30 per cent this year. North Vancouver and Vancouver condominium prices have grown in excess of 20 per cent, while in Richmond, the Tri-Cities, and Langley, prices have increased less than 10 per cent. Local market conditions play a large role in price appreciation.

MLS sales are forecasted to dip slightly in 2004. Increased competition from new housing combined

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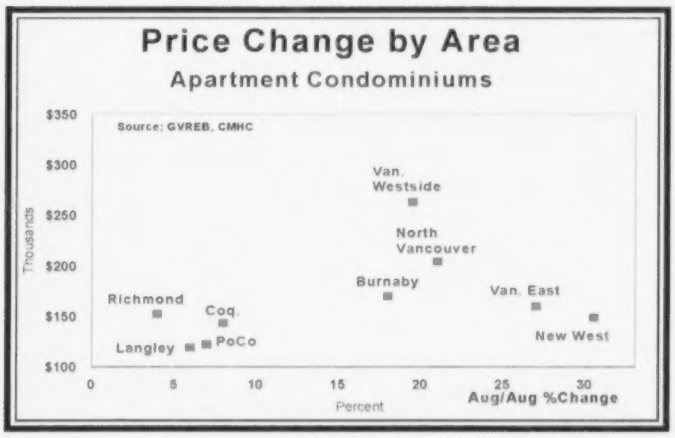
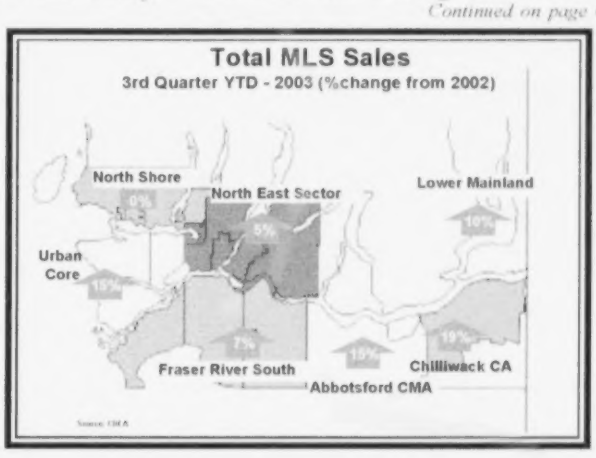
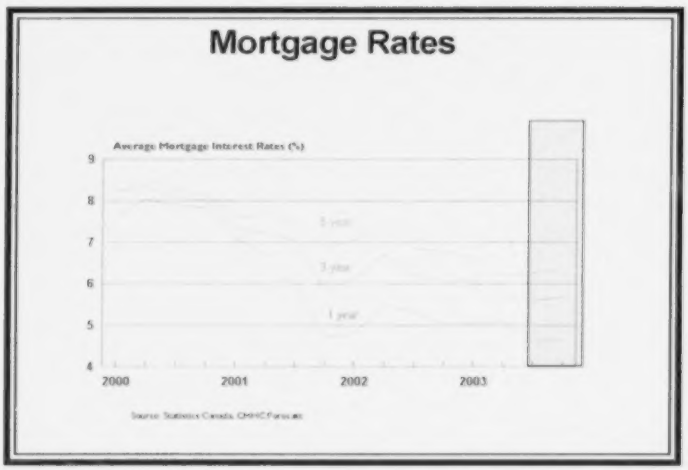




Mortgage Rate Outlook

Despite fairly robust consumer confidence, the US economy will continue its lacklustre performance until the end of 2003. Next year, an easing of geopolitical risks, aggressive fiscal stimulus, and rising corporate profits will lead to higher interest rates. US short-term interest rates will likely remain stable over the next 2-3 quarters. However, by the end of 2004, the US federal funds rate could climb by as much as 100 basis points.



It appears the risk of deflation in the US has all but evaporated due to the pro-active role played the Federal Reserve and the downward wage/price rigidity in the US economy. The US consumer price index (CPI) was up 2.1 per cent in July, but the core CPI (excluding energy and food) rose by just 1.2 pr cent.

Meanwhile, short-term Canadian interest rates will remain low over the next several months. A continued strong dollar and an inflation rate below the 2 per cent target will forestall any attempts to increase the Bank Rate in the short term. However, by the end of 2004, short-term rates will likely rise 25-75 basis points, with the brunt of the increase occurring in the latter half of the year. Long-term rates are expected to continue their upward trend this year and rise by an additional 25-50 basis points in 2004.

Short-term mortgage rates move in tandem with the prime rate, while mid- and long-term mortgage rates vary in response to the cost of raising funds in the bond markets. Therefore, low interest rates in those markets call for posted mortgage rates to stay low over the next few months. The spread between mortgage rates and comparable bond yields has remained at 150-250 basis points in the last few years, providing lenders with some room to negotiate discounts from the posted rates. These spreads and discounts are likely to persist in the near future.

Mortgage rates are expected to remain stable for the balance of 2003 and into the first half of 2004 before increasing 50 –75 basis points by the end of the year. Rather than having a negative effect on housing markets, a marginal increase in mortgage rates will signal a reinvigorated North American economy with the associated employment and wage gains. ■

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The average sale price of a home in BC will climb to $255,000 this year, the highest of any province in Canada. Vancouver and Victoria have the dubious distinction of having the most expensive home prices of any city in Canada. While home prices are rising, they are not growing at a rate characteristic of an overheated market. For example, the average home price in Greater Vancouver is expected to rise 9% in 2003, far less than the price run ups of 20-30% during the late 1980s.

To understand where we go from here, it's necessary to look at the economic fundamentals. While home and automobile sales have been brisk in recent years, the BC export and tourism sectors have waned. In a sense, the economy hasn't been running on all cylinders. However, that is changing now. Recent job growth, increasing wages, and a diminishing exodus of households to other provinces are good news for housing markets in BC. The provincial economy is now in the early period of a growth phase.

By all accounts, mortgage rates will remain low for another year, and below historical averages through the medium term. Look for low rates and a growing economy to produce strong demand for housing over the next few years. While cherry 1956 convertibles are somewhat of a rarity these days, low mortgage rates and home ownership are increasingly commonplace. ■

In Focus: *Our Aging Population*

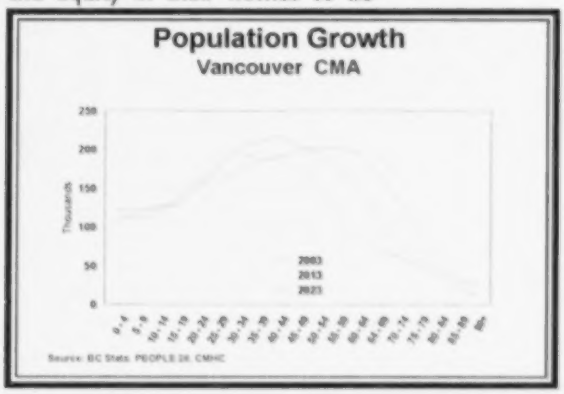
Geography plays a key role in the housing landscape of Greater Vancouver. A finite land supply and a trend toward regional town centres have certainly changed the dwelling density in most Lower Mainland communities. Condominiums, both townhouses and apartments, are increasingly commonplace. Issues like transportation, affordability, community service cost, and diversity are some of the key reasons for our higher density landscape. However, trends in housing can also be determined by changes in the characteristics of homebuyers themselves. One of the most notable trends is the aging of the population.

It is a truism that as people age, their housing needs change. Young families require more room while retirees generally need smaller more flexible accommodation. We are already experiencing a shift in buying patterns. Sales of recreation and investment property are on the rise. This is the result of a large number of 40-55 year olds utilizing the equity in their homes to advance their lifestyle and bolster their investment positions. As the baby-boomers grow older, their housing choices will continue to change.

By the end of the next decade, the proportion of the population between 50 – 64 years old will grow 46 per cent. This will mean not only continued strength in the recreation market, but also a shift toward smaller more amenity-rich accommodations. The popularity of high density living will only increase as the population ages. Retirees, for example, will not need to worry as much about rush-hour traffic patterns. Rather, their housing choices will revolve around lifestyle. For some, this will mean a move away from the suburbs into the downtown core in search of pedestrian environments and big city activities. While for others, it will be the more tranquil setting of rural life that they will be seeking.

Don't count on a wholesale exodus from the suburbs. As people age, they become more reliant on community services, particularly the availability of medical care and other supporting services. Seniors also typically covet being in close proximity to their children and grandchildren, so it is unlikely they will choose to live in sparsely populated areas.

In the next two decades, the boomers will be well into their retirement years. The proportion of the population between 65-79 years old will have grown 120 per cent, a burgeoning market by any account. By then, the landscape of Greater Vancouver will have changed considerably. Retirement residences offering some variety of supportive living will be much more commonplace. Moreover, the distinction between senior's housing and more traditional housing forms will be much less apparent. While higher density housing coincides with an increasing population, the mix of accommodation types will follow the changing needs of an aging society. ■



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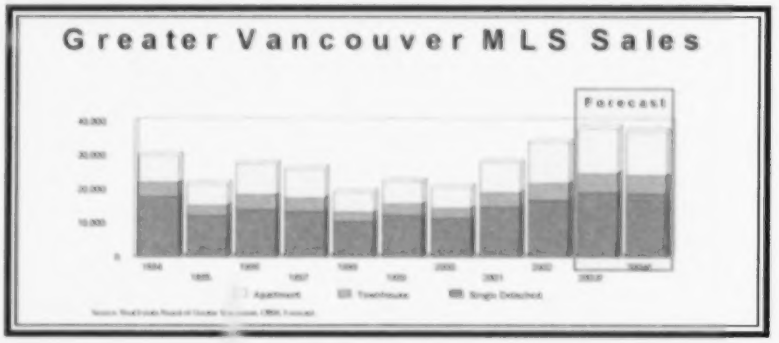
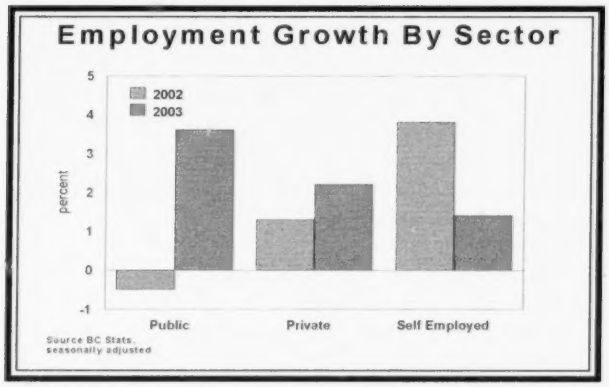
with an easing of the first time buyer market will cause sales levels to drop 2-3 per cent next year. However, in historical terms, MLS sales will post another very strong year. Prices will continue to climb, albeit at a slower rate than the previous two years. Look for average prices to climb in the 3-5 per cent range over the year across all product types. ■



Economic Outlook



The divergence in the BC economy between the consumer and export sectors is continuing this year. While total exports are up, it can be entirely attributed to the energy sector. The total value of energy exports climbed 74 per cent in the first nine months of the year, accounting for 20 per cent of total BC exports. Negative export growth was reported over the period for all other large export sectors. Solid wood products, pulp and paper, and machinery and equipment exports are all down year-to-date.

A strong dollar and the continuing softwood lumber dispute will keep BC's wood producers struggling this year. While an expected US recovery next year will increase demand for foreign products, a higher exchange rate will mean that BC products and services will cost more, making US domestic suppliers more attractive. On the positive side, US imports will be less expensive for BC consumers and businesses.

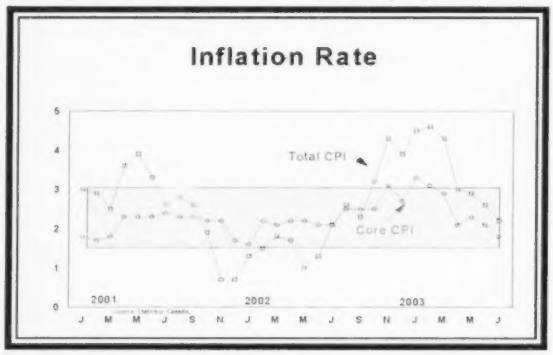
The strength in the economy continues to be driven by consumers. Retail sales are up 2.2 per cent year-to-date, with department store sales up an impressive 3.3 per cent. Housing starts are up 21 per cent for the first nine months of the year, while MLS sales are nearing an all time record. A strong consumer sector is the chief reason provincial GDP growth will reach the 2 per cent range this year.

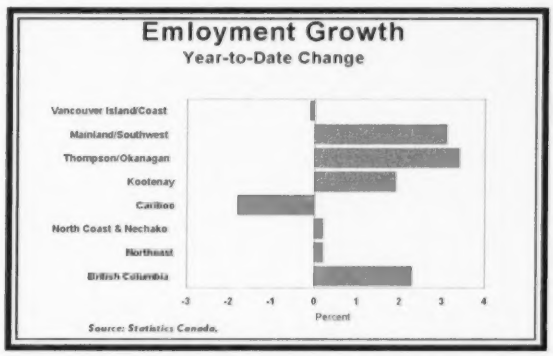
The BC economy is showing positive signals in some areas. Year-to-date, employment is up 2.5 per cent. Although the unemployment rate has also increased recently, a rise in the labour participation rate is a contributing factor. The goods producing sector has been encouraging, with a 7.4 per cent increase in related employment. Service sector employment, on the other hand, has grown by a mere 1 per cent over the same period.

Last year at this time the majority of employment growth was attributed to self employed individuals, with public sector employment flat and a 1.3 per cent expansion in private sector employment. Today, this situation has reversed. Employment growth is strongest in the public sector, which posted a 3.6 per cent increase year-to-date. Over the same period, private sector employment grew 2.2 per cent, while the number of self employed individuals rose by just 1.4 per cent.

The preponderance of job growth has been concentrated in the province's large urban centres of Greater Vancouver and Kelowna. This reflects a general rural to urban population shift. In fact, ten years ago, Greater Vancouver absorbed around 40 per cent of total net migrants to BC. Today, that number is 100 per cent. Net interprovincial migration will still be negative this year, with a loss of about 4000 expected, while net international migration appears to be holding steady at around 23,000.

Corporate profits are expected to make positive gains this year and next, providing the impetus for rising business investment. Corporate profits and employment growth are also positively correlated, putting further job growth on the horizon. However, caution is warranted. While the BC economy is showing signs of beginning a growth cycle, stronger GDP and employment growth is needed in order to attract inter-provincial migrants and bolster housing demand. A resolution to the softwood lumber dispute and a reinvigorated tourism sector would go a long way to achieving the kind of growth needed to sustain housing demand over the long term. ■





Forecast Summary

	2001	2002	2003F	%Chg.	2004F	%Chg.
Resale Market						
MLS-GreaterVancouver						
Single-Detached	14,735	16,784	17,500	4%	17,000	-3%
Townhouse	4,383	5,113	6,000	17%	5,900	-2%
Apartment	8,791	11,967	14,500	21%	14,200	-2 %
MLS-Fraser Valley						
Single-Detached	7,931	9,288	9,520	2%	9,200	-3%
Condo	4,148	5,929	7,480	26%	7,300	-2%
MLS Total Sales	39,988	49,081	55,000	12%	53,600	-3%
Single-Detached	22,666	26,072	27,020	4%	26,200	-3%
Condo	17,322	23,009	27,980	22%	27,400	-2%
Average MLS Price						
GreaterVancouver						
Single-Detached	$369,268	$393,953	$440,000	12%	$452,000	3%
Townhouse	$232,434	$247,215	$268,000	8%	$279,000	4%
Apartment	$176,730	$197,654	$215,000	9%	$225,000	5%
FraserValley						
Single-Detached	$251,380	$271,464	$302,000	11%	$317,000	5%
Condo	$141,496	$154,636	$160,000	3%	$166,000	4%
New Home Market						
Starts						
Vancouver CMA						
Total	10,862	13,197	15,200	15%	15,800	4%
Single-Detached	3,512	4,980	5,600	12%	5,700	2%
Multi-Family	7,350	8,217	9,600	17%	10,100	5%
Abbotsford CMA						
Total	418	1,038	1,180	14%	1,230	4%
Single-Detached	412	558	560	0%	570	2%
Multi-Family	4	480	620	29%	660	6%
Average Price						
Vancouver CMA						
Single-Detached	$449,444	$465,288	$500,000	7%	$520,000	4%
Townhouse	$234,909	$253,021	$262,000	4%	$275,000	5%
Apartment	$263,171	$303,669	$240,000	-21%	$260,000	8%
Abbotsford CMA						
Single-Detached	$252,364	$275,044	$305,000	11%	$315,000	3%
Townhouse	N/A	N/A	$228,000		$232,000	2%
Apartment	N/A	N/A	N/A	N/A	N/A	N/A

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